

WALL STREET JOURNAL
25 February 1986

ARTICLE APPEARED
ON PAGE 34

INTERNATIONAL

Gorbachev Task: Revamping Economy In the Face of Declining Soviet Exports

By FREDERICK KEMPE

Staff Reporter of THE WALL STREET JOURNAL

MOSCOW—These are the best of times and the worst of times for Mikhail Gorbachev.

The Soviet leader has revamped an aging bureaucracy with head-spinning speed, caught President Reagan off guard with arms-cut proposals and softened Moscow's hard-line reputation despite heightened offensives in Afghanistan and a stricter watch on Eastern Europe.

He is riding such a wave of popularity at home that ordinary Russians say they again are using a long-forgotten word, *nadezde*, meaning hope. But Mr. Gorbachev, who discusses his plans in an address to the Communist Party Congress today, will be hard-pressed to transform that hope into policies that bring economic gains. Drastically falling export earnings threaten to swallow up his ambitious investment plans, and a sclerotic system resists his heady goals.

"People always say Gorbachev is young, but he also has the age of the system to conquer," says Dominique Moisi of the French Institute for International Relations. Mr. Moisi believes a leader can put his stamp on foreign policy and even personnel with great speed, but that mastering the economy is another matter. "Now comes the hard part," Mr. Moisi says.

Goals to Reach

Western diplomats are looking to the party congress for clues about how Mr. Gorbachev plans to meet his ambitious goals. Specifically, they hope to learn:

- How much he will reduce central controls to revive the economy.

- Whether he will resort to domestic austerity or to more Western loans to address economic difficulties.

- If there is any apparent tension between Mr. Gorbachev and the military as competition for resources increases and his moratorium on nuclear testing enters its seventh month.

- The impact of the greatest party purge since Stalin. Kremlinologists are predicting a 50% turnover in the membership of the party's Central Committee.

- How the Soviets will respond to President Reagan's latest proposal to control medium-range missiles.

In addition, East Europeans will listen nervously for Gorbachev comments on re-

lations with other socialist countries. Sharp warnings to Hungarian leader Janos Kadar about his openness to the West and his lax attitude toward party orthodoxy, combined with Moscow's efforts to establish official Soviet bloc ties with Common Market countries, have raised concern that Mr. Gorbachev will keep his allies on a shorter leash and restrict their contacts with the West.

"People will be looking at the party congress as an important barometer by which to measure Gorbachev's authority and power," says Arnold Horlick, a former Central Intelligence Agency Soviet analyst now at Rand Corp.

Soviet party congresses are usually as dull as dogma. Soviet leaders speak endlessly and everyone votes the party line. There rarely are surprises, as in the secret speech by Nikita Khrushchev 30 years ago, when the Soviet Union parted ways with Stalin. A senior U.S. official says he doesn't expect as great a surprise this time, but he and others think Mr. Gorbachev's timing of the congress is more than coincidental.

"Khrushchev's ideas are experiencing a revival," says Marshall Goldman, expert on Soviet economics at Harvard's Russian Research Center, who has just returned from the Soviet Union. "Almost everything he talked about is coming back." That includes giving more power to regional economic councils, breaking up ministries, moving good people out to the provinces, giving more authority to enterprises, taking power from the military and starting more open discussion of Soviet problems.

The party congress should give an indication of how successfully Mr. Gorbachev can pursue these goals without repeating Mr. Khrushchev's mistake of pushing too far, too fast. Kremlin watchers fear, however, that Mr. Gorbachev already has committed one Khrushchev-style error by promising more than he can deliver.

The party program calls for tripling the rate of productivity growth by the year 2000 and doubling living standards. But a senior U.S. official asks, "Where's the borscht?" This official wonders if Mr. Gorbachev will stick with the moderate changes already announced—more autonomy for enterprises and regional authorities—or make a more dramatic move such as greater reliance on market forces.

Basic Change Unlikely

"I am very skeptical about basic reforms," says Karsten Voigt, foreign policy spokesman of the West German Social Democratic Party. "Although I don't want

to rule it out, I doubt whether they have the courage."

The problem is drastic. In Mr. Gorbachev's first year, "He presided over the second-slowest growth in post World War II economic history," says Jan Vanous, director of Washington's PlanEcon, which studies the Soviet economy.

Mr. Vanous says the Soviets were able to get an increase in domestic consumption and net investment only through a deliberate policy of reducing lending to socialist countries and the Third World and a record \$6 billion increase in borrowing from the West. Despite Moscow's predictions of growth, PlanEcon estimates that the Soviet net material product, which is roughly gross national product minus services, grew only 3.1% last year, off slightly from 3.2% in 1984.

Lower oil prices, declining Soviet oil production and the falling U.S. dollar all have worsened Moscow's hard-currency shortage. Arms sales to the Third World, Moscow's second-largest source of hard currency after oil, fell to about \$4.7 billion last year from \$7.9 billion in 1984, PlanEcon estimates. And the Soviets don't dare sell too much gold on a market already depressed by large South African sales.

Western bankers predict that the Soviets will increase their borrowing from the West, and say Western bankers likely will be glad to extend the additional credit.

Anxiety About SDI

The party congress also may help clarify Mr. Gorbachev's relationship with the military. Some commanders worry about their missiles becoming pawns in negotiations to stop President Reagan's Strategic Defense Initiative.

A senior French official notes that, so far, the military has gone along with Mr. Gorbachev's policy on SDI, hoping that Soviet good behavior and far-reaching arms proposals would undermine SDI's Congressional and allied support.

The congress will be a political test of the ability of Gorbachev to convince his people to be patient vis-a-vis the Americans, the French official says.

"These things don't happen by accident," the U.S. official says.

A senior U.S. official already sees signs of tension between Mr. Gorbachev and the military. The official points to rare mention of the military in Gorbachev speeches and the decision thus far to keep Defense Minister Sergei Sokolov as only a candidate member of the Politburo.